FPE

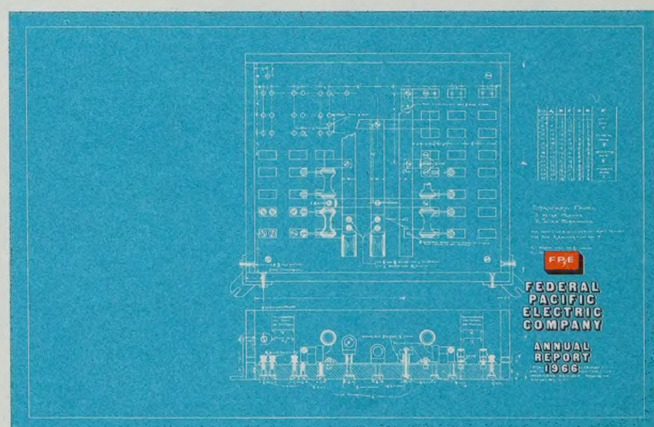
FEDERAL PACIFIC ELECTRIC COMPANY

ANNUAL REPORT 1966

TEN YEAR'S FINANCIAL HIGHLIGHTS

	1966*	1965*	1964*	1963*	1962*	1961*	1960*	1959*	1958*	1957*
Net Sales to Customers . .	**$138,327,651**	$117,599,899	$96,001,003	$95,010,867	$97,285,128	$88,212,691	$100,194,175	$62,724,709	$54,929,234	$49,558,232
Net Earnings after Taxes .	**$ 4,625,852**	$ 3,453,416	$ 2,134,098	$ 1,745,673	$ 1,504,688	$ (4,456,423)	$ 2,767,815	$ 2,307,494	$ 2,726,197	$ 2,464,932
Provision for Income Taxes	**$ 4,746,000**	$ 2,940,423	$ 1,993,830	$ 1,175,450	$ 788,036	$ (3,455,241)	$ 1,835,200	$ 1,132,600	$ 2,457,000	$ 2,755,000
Common Dividends Paid .	**$ —**	$ —	$ —	$ —	$ 118,556	$ 1,171,188	$ 1,210,068	$ 1,019,742	$ 792,565	$ 700,406
Preferred Dividends Paid .	**$ 677,604**	$ 684,805	$ 691,920	$ 744,646	$ 752,327	$ 766,847	$ 267,604	$ 113,700	$ 118,875	$ 120,000
Reinvested Earnings . .	**$ 3,948,248**	$ 2,768,611	$ 1,442,178	$ 1,001,027	$ 633,805	$ (6,394,458)	$ 1,290,143	$ 1,174,052	$ 1,814,757	$ 1,644,526
Property Plant & Equipment (Net)	**$ 19,962,232**	$ 19,336,364	$16,548,335	$18,785,065	$19,545,111	$19,640,441	$ 16,961,168	$13,001,772	$ 8,812,621	$ 7,767,539
Working Capital	**$ 39,379,914**	$ 36,304,578	$32,363,677	$27,977,885	$27,711,403	$30,141,304	$ 29,472,294	$19,590,772	$16,785,656	$14,303,384
Shareholders' Investment .	**$ 39,266,212**	$ 35,957,953	$35,184,417	$34,923,846	$34,721,479	$34,693,947	$ 34,143,526	$24,343,508	$18,570,726	$15,646,400
Shares of Common Stock Outstanding	**2,561,397**	2,561,026	2,497,972	2,511,772	2,420,991	2,371,127	1,454,558	1,365,877	1,040,197	910,778
Earnings per Share of Common Stock** . . .	**$1.51**	$1.06	$.55	$.38	$.29	$(1.98)	$1.16	$1.06	$1.44	$1.37
Dividends per Share of Common Stock . . .	**—**	—	—	—	$.05	$ .65	$ .80	$ .80	$ .80	$ .80
Stock Dividend on Common Stock	**—**	—	—	—	—	5%	5%	5%	5%	5%

* Fiscal year ended June 30.
** After dividend payment on Preferred Stock and giving effect to the assumption that all the Common Stock, Class B had been converted.



THE COVER of this report is a reproduction of a blueprint showing an advanced design for standardized panelboards. This drawing was made by our Chairman, Louis W. Cole, just sixty years ago this month. We don't make panelboards this way any more, but the experienced background of our senior executives, whose brief biographies you will find in the body of this report, guides us to the sound design and business decisions of today.

ANNUAL REPORT 1966

LOUIS W. COLE

THOMAS M. COLE

Message to Shareholders

IN THE MONTH of June, the last of our fiscal year, total shipments of Federal Pacific Electric Company approximated $15,000,000 while new business securements were at the $20,000,000 level. These facts characterize the prospects of your Company at this time. Of even greater importance to your management is the continuing expansion of net earnings as related to sales. This margin has advanced steadily for the past five years as can be seen from the table summarizing historical financial highlights. Management expects this progress to continue, independent of sales, motivated by new and more efficient plants, better product design and manufacturing methods, and expanded applications of computer programs to our day-to-day business problems.

In the fiscal year ending June 30, 1966, your Company attained new records in sales and net income. Sales were $138,327,651, compared to $117,599,899 in fiscal 1965. Net income was $4,625,852 versus $3,453,416 last year. This was equivalent to $1.51 per share of common stock, up from $1.06 in 1965. This marks the fifth consecutive year in which net earnings have advanced.

This year, we began to realize the results of several years' planning which created the added plant capacity and recruited and trained the personnel to secure, produce, and service this volume of business. It is likely that, if additional capacity had been available, shipments would have been considerably larger.

In line with our medium-range forecasts, plant expansion is continuing in the United States, Canada, and overseas. Last year almost $7,000,000 was spent on new facilities and equipment. A comparable amount will be invested this year. The recently completed plants and others now under construction will permit an orderly expansion of our business in the years to come.

In the body of this report, you will find some of the highlights of the past year. For this purpose, we have categorized operations as follows: (1) Financial Review; (2) Low Voltage Distribution Equipment; (3) Transformers and Switchgear Equipment; (4) Cornell-Dubilier Electronics; and (5) International Operations, other than Canada and Mexico.

LOUIS W. COLE, Chairman of the Board, founded Cole Metal Products Company in 1918 to manufacture standard metal enclosures for the electrical industry. This became the base for the organization which is now FPE. He was honored by the National Electrical Manufacturer's Association in 1956 on his 50th year in the industry as "a pioneer who has given unselfishly of his time, thought, energy, and spirit to promote the interests of all electrical men."

THOMAS M. COLE, President and Chairman of the Executive Committee, began his business career with the Company in 1941 and has been chief executive officer since 1946. He holds 72 patents, including that of Stab-Lok, the most widely used type of residential circuit breaker in the world.

The expansion plans of the electric utility industry assure an unprecedented demand for transformers and switchgear apparatus for the foreseeable future. To deal with the larger requirements for these products, considerable expansion has been planned by your Company in both the United States and Canada. At the same time, technical efforts are being accelerated, primarily toward the solution of extra high voltage problems in transformer design and new medium and low voltage switchgear.

Industrial construction and expansion have created strong demand for the products of the Low Voltage Distribution and Control departments. At the present time, the requirements appear to be excessive, and it is to be expected that incoming orders will fall more in line with available industry capacity during the coming year. Under existing conditions, the decline in new housing starts in the United States is largely offset by the greater amount of electrical distribution equipment needed in the increasing number of electrically heated homes.

In the near future, we expect a drop in new industrial construction and a concurrent rise in home building to meet the demands of an expanding population and record new family formations. When this renewed activity comes, it should afford interesting prospects for the Company because we expect to participate not only through low voltage distribution and control equipment requirements, but, more importantly, through the increasing sales of our electric heating equipment which is expected to be installed in more than 50% of new homes.

Cornell-Dubilier Electronics Division has met significant objectives in the past year. In addition to many new product developments and profit improvements, we are most pleased with our new management team which, we are confident, will carry this Division forward to new goals.

We continue to place emphasis on foreign operations and believe long-term benefits will accrue as a result of these investments. A substantial portion of the Company's total Research and Development in certain product lines is now being done abroad. The results are proving dramatic in terms of new developments and most satisfactory from a cost point of view.

This message can be concluded, as it began, on a confident note. Management expects continued improvement in sales in the coming year. We also expect earnings per common share to increase by at least 33 percent.

We would like to call your attention to the men of our management group, particularly their years in the industry and with FPE. They are chiefly responsible for the record of this Company.

We also want to thank our employees for their loyalty and dedication throughout the year.

Respectfully submitted,

Louis W. Cole
CHAIRMAN

Thomas M. Cole
PRESIDENT

EDWARD BIERMA

HAROLD E. YOUNG

EDWARD BIERMA, Secretary-Treasurer, came with the Company in 1951 as General Counsel and Assistant Secretary after being associated with a New York law firm for a number of years. Elected Secretary in 1954 and assumed his present position in 1959. Is now responsible for financial and legal matters and a member of Operations Committee.

HAROLD E. YOUNG, Controller and Assistant Treasurer, joined the Company in 1946 and was elected to his present position in 1956. Serves on Operations Committee. A member of the Financial Executives Institute and the National Association of Accountants.

FINANCIAL REVIEW 1966

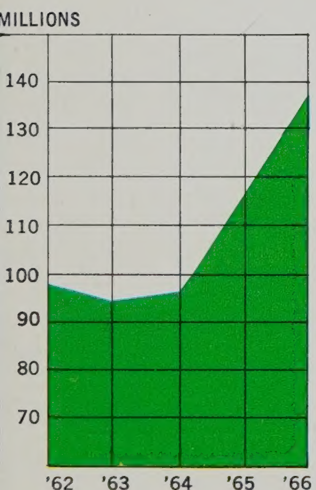
AS SHOWN ELSEWHERE in this report, consolidated sales and earnings for the Company reached record levels during the fiscal year ended June 30, 1966. The most important contribution to this increase was made by the Company's domestic operations where earnings rose to $3,508,593 in 1966 from $2,437,787 in 1965. For our Canadian operations, net earnings increased to $941,129 from $650,534 in 1965, while those from our other foreign operations amounted to $176,130 in 1966. The pre-tax earnings of our electronics division, Cornell-Dubilier Electric Corporation, increased to $793,201 from $373,853 in 1965.

CONSOLIDATED NET SALES rose to $138,327,651 in 1966 which was $20,727,752 or 18 per cent over the 1965 amount of $117,599,899. The Company's domestic operations contributed the major share to this improvement.

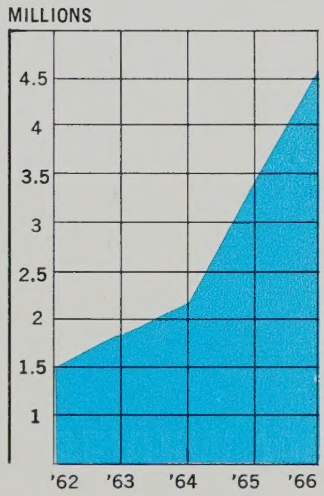
Consolidated sales of the Canadian operations were $25,925,741, a 24 percent increase over the $20,778,119 achieved in 1965, while the volume of our other foreign operations was $12,145,289 in 1966.

The margin of earnings per dollar of sales continued to improve and increased from 2.9 percent in 1965 to 3.3 percent in 1966. The greatest gain in profit margins took place in the domestic operations where earnings per dollar of sales rose from 2.7 percent in 1965 to 3.4 percent in 1966. This favorable trend results in part from new products and the redesign of other products, but primarily from the more efficient production at the new facilities at Albemarle, North Carolina, and Edgefield, South Carolina, and increased apparatus sales.

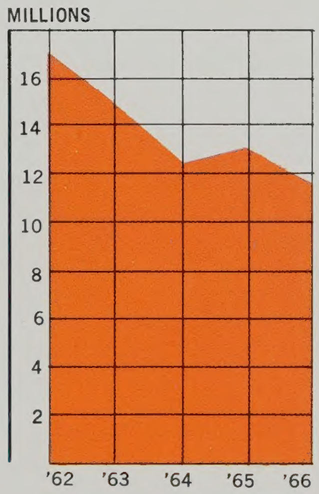
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT: Additions to property, plant and equipment during the year were $3,356,017, a $433,222 increase over the amount of $2,922,795 for 1965. Depreciation this past year totaled $2,730,149.



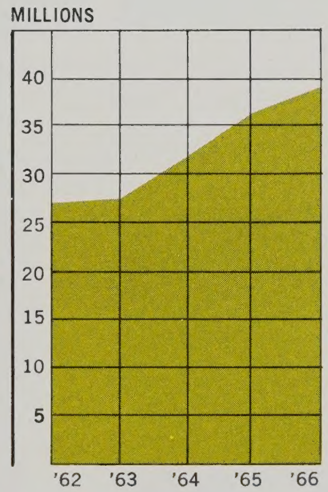
NET SALES



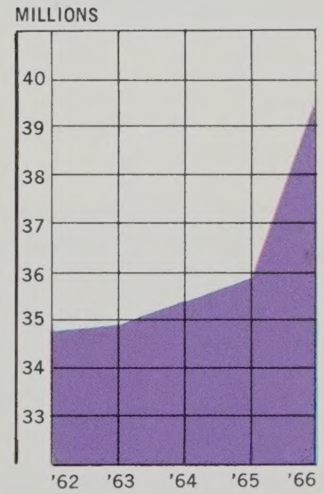
NET EARNINGS



LONG TERM DEBT

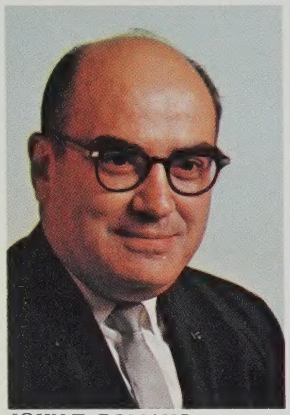


WORKING CAPITAL



NET WORTH

HARRY E. KNUDSON, Jr.



JOHN T. ROMANO

LOW VOLTAGE DISTRIBUTION EQUIPMENT

DURING THE PAST YEAR, conditions were highly favorable for FPE's products in the low voltage distribution equipment field. Demand was especially strong in the industrial and commercial markets where two of the newer product lines, Molded Case Circuit Breakers and Motor Control, showed sales gains of 50.5 percent and 67 percent respectively over fiscal 1965. Electric heat equipment continued its rapid growth with sales some 78 percent ahead of the previous year.

FPE's ability to penetrate the industrial and commercial markets is of long-term significance. In the past, FPE was closely linked to the residential housing market. Today, FPE domestic business is most responsive to industrial building trends and to electrical utility capital expenditures. In fiscal 1966, approximately 22 percent of domestic sales was to the home-building industry.

The Company continued to expand its product line by introducing:

Super-Clean Electric Baseboard Heater: the Caribbean

FS Fusible Equipment: to provide greater circuit capacity in a smaller space for panelboards and load centers.

Dynamic Hazard Indicator: designed for hospital operating rooms to warn of electrical hazards from gas leakage.

Econ-Limiter® Time Delay Fuses: for motor control centers, panelboards, and switchboards.

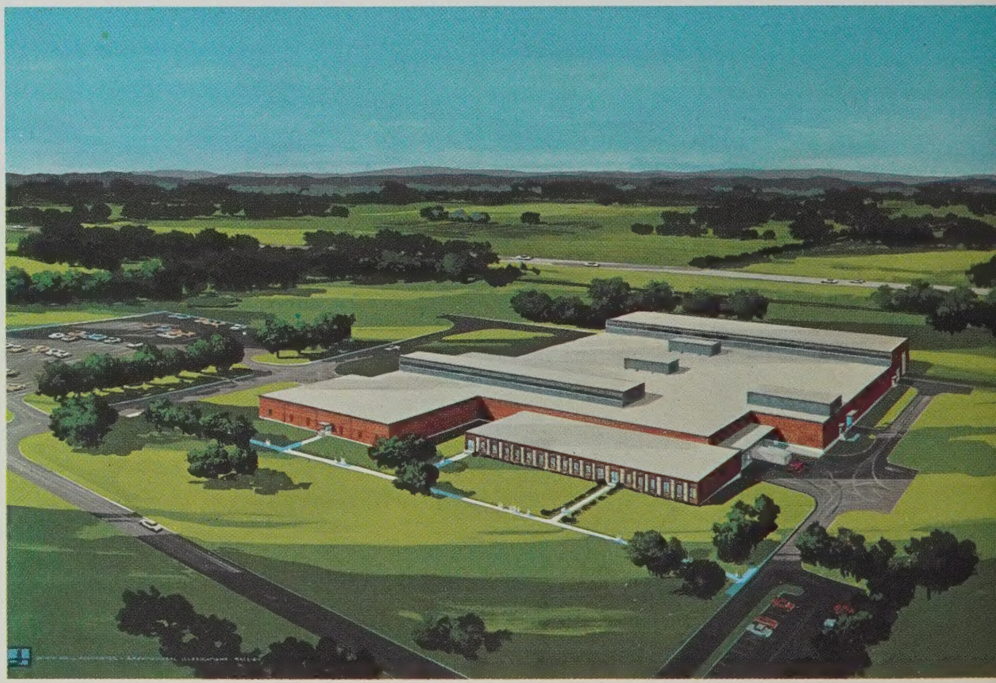
5350 Motor Control Center: for industrial, heavy commercial use.

OUTLOOK: Products for the industrial, commercial, and utility markets are in strong demand. Short-term prospects for housing remain in doubt, but FPE's potential sales in each new home have been multiplied ten-fold by the fast-growing importance of electric heat.

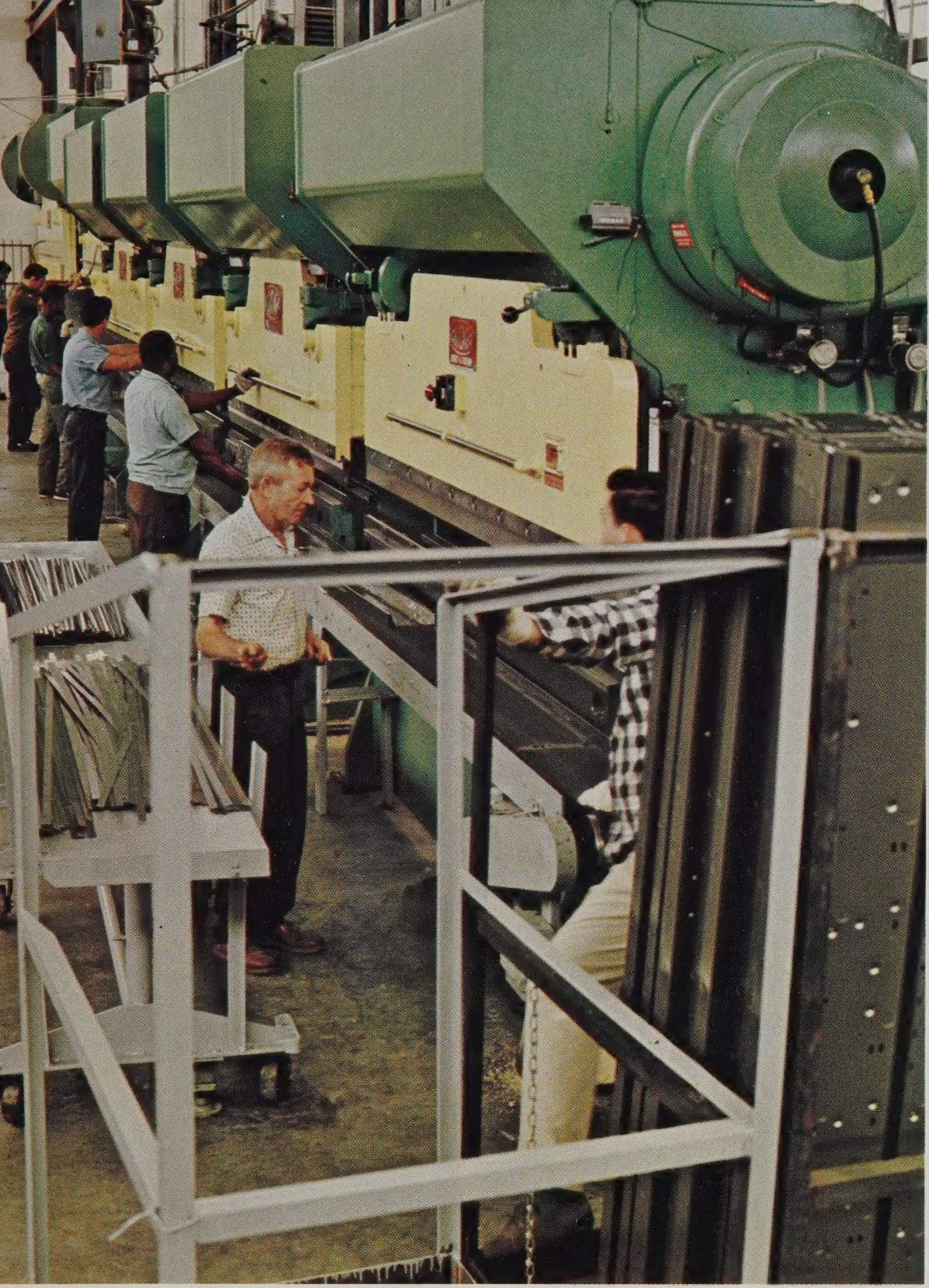
With the continued introduction of new growth products, improved manufacturing facilities and techniques, and strengthened research and development programs, FPE expects to gain increasingly important positions in each of the markets it serves.

HARRY E. KNUDSON, Jr., Vice-President-Sales, joined the Company in 1947 as a field sales engineer. After serving as manager of several districts and the Middle Atlantic Region, he became General Sales Manager, and in 1961 was elected to his present position with responsibility for Marketing and Sales in the United States; member of Operations Committee.

JOHN T. ROMANO, Vice President in charge of Eastern Manufacturing Operations, started with the Company in 1946 as an accountant. Now responsible for the research, development, and manufacture of a wide variety of products, primarily in the low voltage field and serves on Operations Committee.

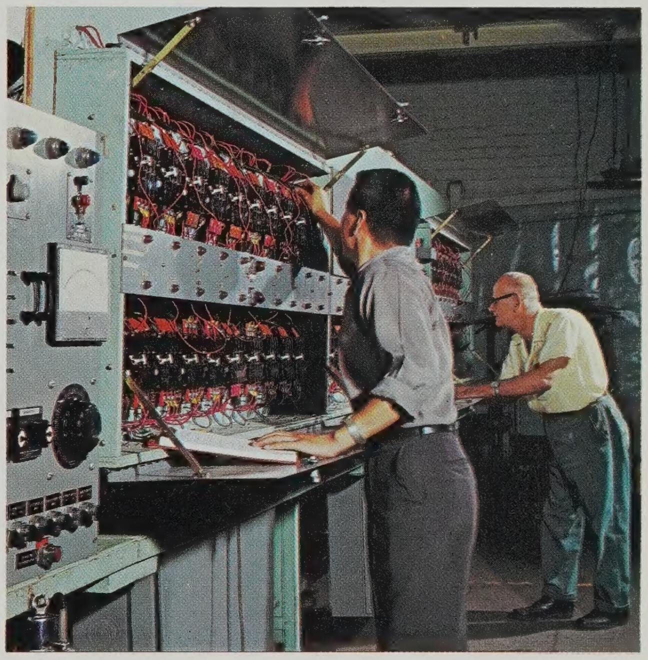


To keep pace with the rising demand for packaged distribution centers, a new plant at Vidalia, Georgia, is now under construction. It is scheduled to be operating in 1967 and has ample room for expansion.

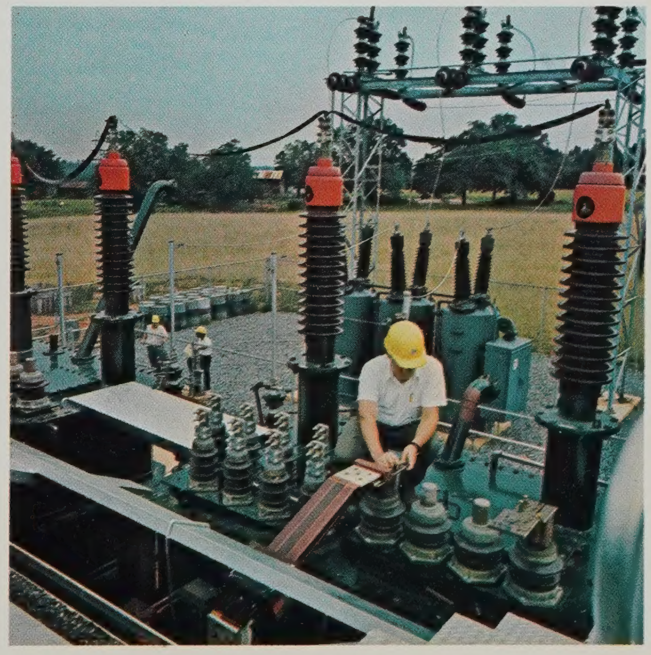


The Edgefield, South Carolina, plant is now producing a complete line of electric heating equipment in a fully integrated operation.

Among the new products for the industrial field is a 2000 amp industrial molded case breaker uniquely designed to fit into both switchboard and panelboard installations.



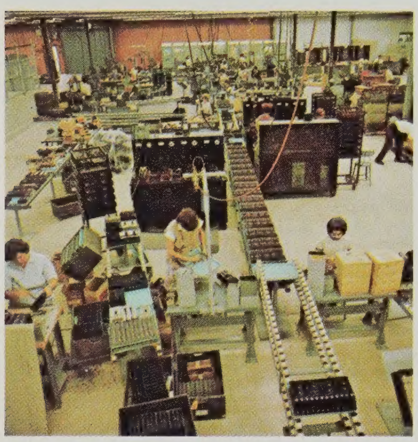
Testing GA 4000 Motor Control devices which incorporate an exclusive overload relay system. Sales of first full year justified expanded line to secure deeper penetration in this important market.



Final construction of 100 KV switching yard of new High Power Research Laboratory at Belmont, North Carolina to speed testing required for product progress.

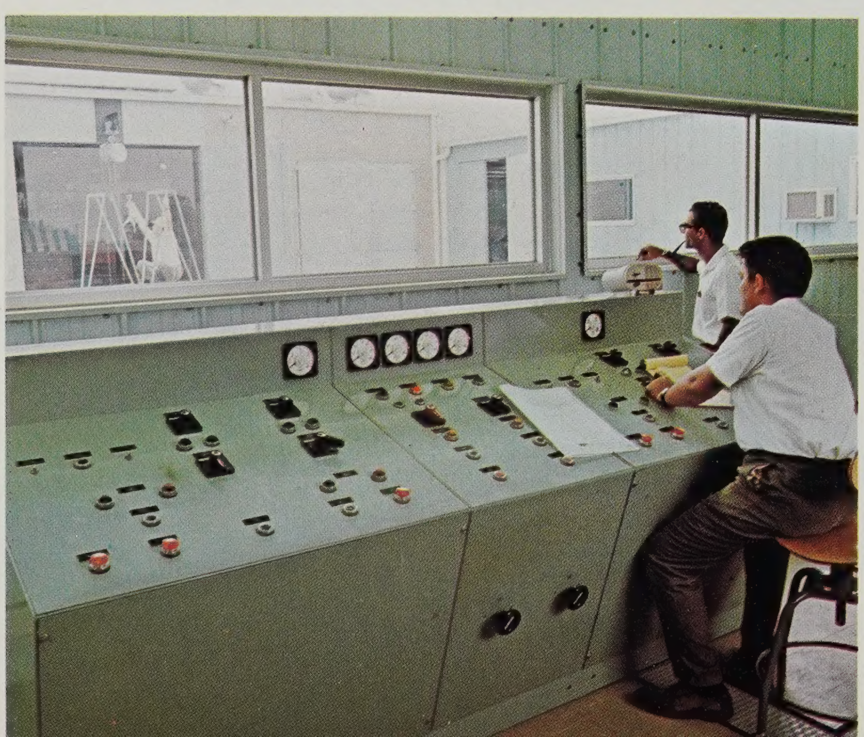
At Newark, New Jersey, new conveyor belt assembly lines speed production and improve quality of some 100 different variations of standard electrical equipment enclosures.

Switchgear production reached new high with expansion into more complex equipment. This required additional engineering personnel and more space at Newark plant.



(Far left) The new 265,000 square foot plant at Albemarle, North Carolina, the most modern in the industry, is now in full production, has enabled FPE to maintain leadership in circuit breakers.

Albemarle's advanced designed equipment automated many steps in manufacturing circuit breakers, assured maximum product reliability and increased output at much lower cost.



Test console in control room at Belmont Laboratory which will permit more extensive high current and short circuit testing of fuses and circuit breakers.

ND SWITCHGEAR EQUIPMENT

THE APPARATUS DIVISION, which manufactures transformers, switchgear and capacitors for power factor correction, contributed importantly to the Company's improved performance by increasing its sales 48 percent over fiscal 1965. A large portion of this gain came from industrial customers.

One of the most successful product lines during the past year was dry type transformers which are made at the Des Plaines, Illinois, plant. In four years, FPE has become one of the four major manufacturers of these transformers in the United States. While construction markets for this product continue to be important, industrial uses are growing rapidly and the total volume is now approaching $100 million a year.

Shipments of transformers from the Santa Clara, California, plant were up more than 50 percent and future commitments were substantial.

In Canada, where FPE-Pioneer has long been a major supplier of high voltage transformers, business has continued strong, aided materially by the expanded capacity of the Winnipeg plant.

Switchgear also showed healthy growth, due largely to increased penetration in the industrial market, primarily in the United States.

Coordinated research programs among American, Canadian, and Italian plants developed a number of important new products such as the fully molded, medium voltage tap-gear, controlled by solid state relay; the first hydro-mechanical stored energy circuit breaker; and a high-surge resistant transformer.

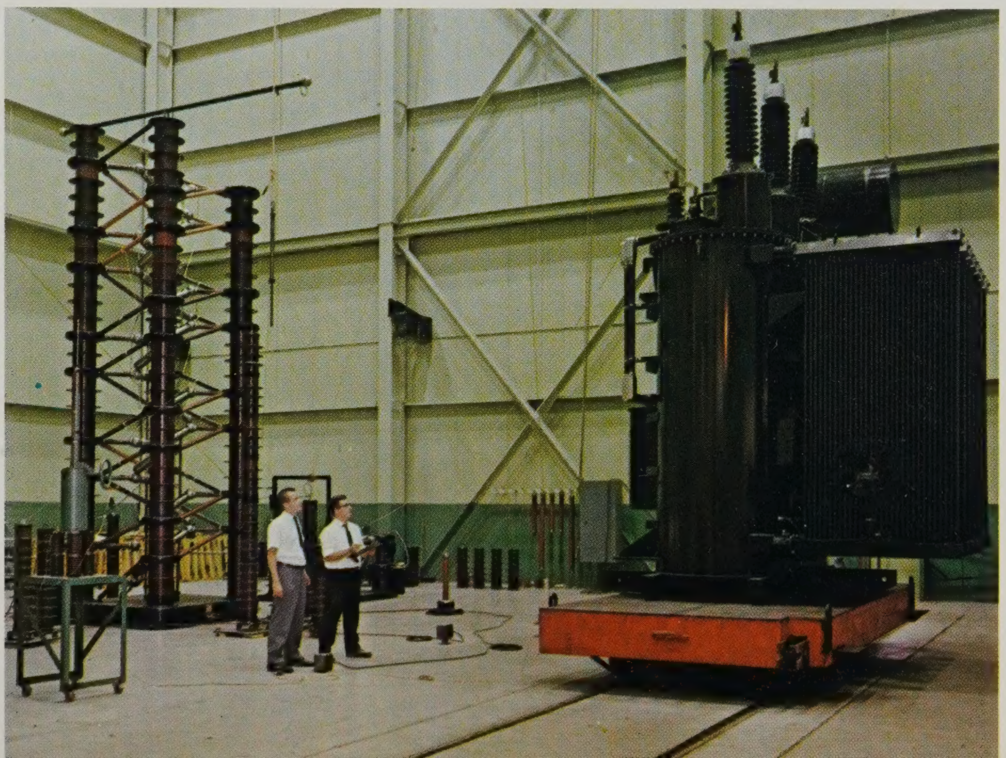
Typical of new development projects are:

A new type of medium voltage air circuit breaker.

EHV (Extra High Voltage) and EHO (Extra High Output) transformer which can be assembled on the site.

Submersible equipment with low oil-content breakers, for use with underground installations.

CONTINUED EXPANSION: To keep pace with the growing demand for heavy electrical apparatus, a new 100,000 square foot transformer factory will be built in California, a smaller plant will be added at Granby, Quebec, and additional space for switchgear will be utilized at Newark, New Jersey.



Impulse test area at Santa Clara, California plant, where transformers are subject to high voltage tests before shipment.

RICHARD NOONAN

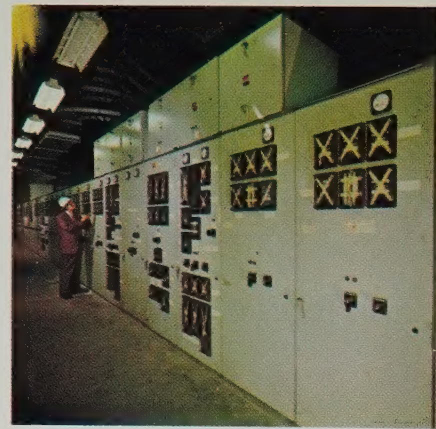
CLIFFORD E. HARRIS

BURT S. BURKE

RICHARD NOONAN, *Chairman of the Executive Committee, FPE-Pioneer Electric Limited, is also head of FPE's Apparatus Division and Chairman of Operations Committee. President of the Canadian Electrical Manufacturers Association.*

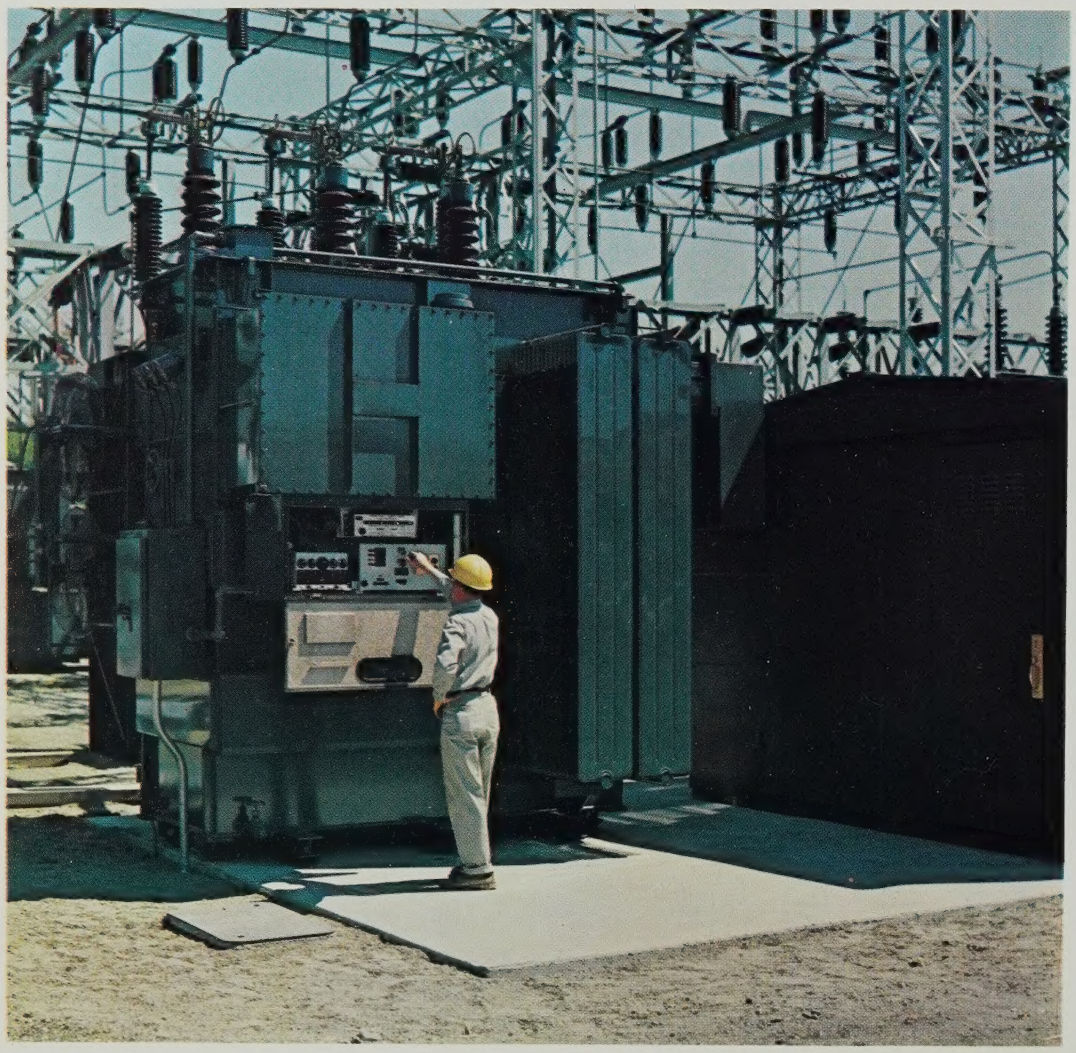
CLIFFORD E. HARRIS, *Vice President and General Manager of the Central Manufacturing Group and Supervisor of the Company's operations in Mexico. He has been with FPE's electrical equipment activities since 1942. A member of Operations Committee.*

BURT S. BURKE, *Commercial Vice President and General Manager of the Apparatus Division at the Newark plant, joined the Company in 1957. Has been in the electrical industry for 40 years, with long service as divisional manager in charge of engineering, sales, and manufacturing.*



Industrial use of switchgear continued to expand in both the USA and Canada. These units are shown during installation at the Clairton Works of United States Steel Corporation.

Final testing of one of a group of 226 to 130-66KV transformers for the Shawnigan Water & Power Company takes place at the Winnipeg, Manitoba plant of Pioneer Electric Limited-Canada.



The seven percent annual growth rate of electrical energy places heavy demands for electrical transmission apparatus such as this 20,000 KVA Unit Substation at a municipal power plant.

CORNELL-DUBILIER ELECTRONICS

GLENN E. RONK

HAIM BEYER

CORNELL-DUBILIER operations improved significantly during the year. Pre-tax earnings were up substantially on a modest sales increase as a result of continued emphasis on product standardization, greater automation, concentration on longer production runs, and the development of several new products for electronic markets.

During the year, additional slow-moving or low-profit product lines, amounting to approximately 10 percent of the previous year's volume, were curtailed or discontinued. The continuation of the SPRINT program, which reduced from 40,000 to 8,000 the number of standard items, permitted the six manufacturing divisions to concentrate on stock products and large original equipment orders.

Some of the new products and more efficient manufacturing techniques are shown in the accompanying photographs. In addition, the Norwood, Massachusetts, plant introduced the extra high capacitance Type TX tantalum capacitor which provides approximately double the capacitance with no increase in case size. This has been well received in the industrial and military markets. During the year, CDE made substantial investments:

The New Bedford, Massachusetts, plant expanded its radio noise filter and large oil capacitor production for military and industrial markets.

The Venice, California, facility continued the production of advanced RFI filter designs and also introduced a standard stock line of power line and screen room filters.

The Sanford, North Carolina, plant added production equipment and facilities to handle the rising demand for film and aluminum electrolytic capacitors.

In fiscal 1967, the SPRINT program will be expanded, making possible further production economies and greater use of automated processes. Engineering research and development efforts are being concentrated on new and improved products which have volume potential, particularly those for the fast-growing industrial and computer markets.

GLENN E. RONK, president of Cornell-Dubilier Electronics Division joined CDE in 1959 and became Vice President of Marketing in 1961. Elected to his present position in 1965. Also a member FPE Operations Committee.

HAIM BEYER, Chairman of the Board of Cornell-Dubilier Electronics Division, has been associated with CDE for 44 years. An electrical engineer, he has held various managerial positions, serving as Executive Vice President until recently.

To keep pace with the increased sales levels, greater use was made of precision equipment, such as this Bobbin Gobbler which automatically forms precise sensitive relays.

Integrated production lines and automated equipment speed output of the new 600 series Miniature Relay which is used in remote controls for TV sets and for industrial items.

Each tiny chip has up to 20 layers of ceramic dielectric, must pass exacting visual and mechanical tests.

Multi-layer subminiature ceramic capacitors are now in production at Norwood, Massachusetts, plant. These are made as "chips" for hybrid circuits and as encapsulated, finished capacitors for computers.

The Central Redistribution Center in Des Plaines, Illinois, carried the primary responsibility for the SPRINT program. Automated material handling upped shipments 50 percent, provided more customers with better service.

INTERNATIONAL OPERATIONS

THE PAST YEAR showed some decline in sales for European operations. The British, West German, and Austrian plants continued at a satisfactory level, but SACE, the largest of FPE's overseas subsidiaries, reported a decline in domestic sales which was only partially offset by greater export shipments. This drop reflected the recession in the Italian economy and the long strike of metal mechanic workers.

SACE production facilities were reorganized, domestic and export sales structures were strengthened, and plans approved for:

A 17,000 square foot addition to the Bergamo plant.

A new plant in southern Italy in cooperation with a government program to aid this relatively underdeveloped area.

A factory for an associated company, SACE Electrik, in Turkey. This will be the only facility of its kind in that country. Sales prospects are good as there is substantial demand for electrical equipment of the type manufactured by SACE.

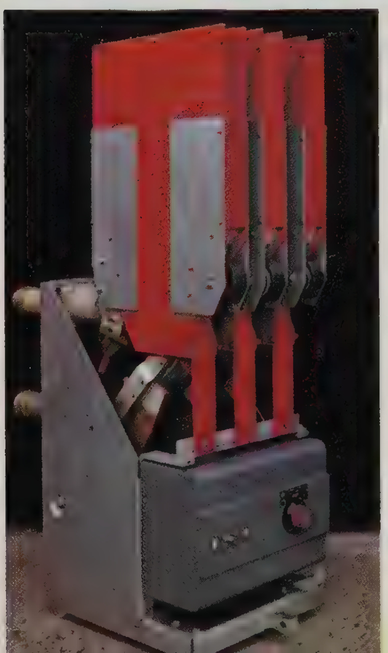
While economic conditions in Italy are improving, a return to previous higher sales levels is not expected until next year. The long term prospects in Europe remain good because of the growing use of electrical power and industrial and commercial expansion.

DR. LEOPOLDO FERRÉ

DR. LEOPOLDO FERRÉ, President of SACE, Bergamo, Italy. He was a co-founder of Ing. Ferré & C. Company which produced electrical equipment, and, in 1934, started SACE. He was elected a director of FPE in 1965.

Facilities and equipment at Bergamo, Italy, plant were modernized. SACE continued its long-range program to improve equipment and design new apparatus with an expenditure of nearly $400,000 for research and development.

Among the new products were: the DIARC line of medium voltage circuit breakers, a metalclad, uni-arc switchgear used for the distribution and protection of power systems. (Far right): redesigned low voltage drawout breaker for switchboard use.



FEDERAL PACIFIC ELECTRIC COMPANY AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FISCAL YEAR ENDED JUNE 30, 1966

FUNDS WERE PROVIDED FROM THE FOLLOWING SOURCES:	
Net earnings per statement of earnings	$ 4,625,852
Provision for depreciation	2,730,149
Decrease in other assets and deferred charges	705,745
Reduction in current income tax liability arising from antitrust settlements	266,522
Increase in accumulated income tax reductions	124,030
Increase in other long-term liabilities	69,636
Total funds provided	8,521,934
FUNDS WERE EXPENDED FOR THE FOLLOWING:	
Additions to property, plant and equipment — net of disposals	3,356,017
Prepayments of long-term debt and sinking fund payments	716,838
Dividends paid in cash to preferred shareholders	677,604
Payments of antitrust settlements	332,028
Decrease in equity of minority shareholders in subsidiary companies	266,238
Other	97,873
Total funds expended	5,446,598
RESULTING IN AN INCREASE IN WORKING CAPITAL OF	$ 3,075,336

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30, 1966	June 30, 1965
CURRENT ASSETS:		
Cash	$ 2,756,021	$ 1,912,208
Accounts receivable, less allowance of $744,000 (1965 — $544,000)	31,597,753	27,648,659
Inventories, at the lower of cost (first-in, first-out) or market	41,591,294	38,199,985
Prepaid expenses	892,604	918,451
	76,837,672	68,679,303
LESS — CURRENT LIABILITIES:		
Notes payable to banks	14,000,646	10,200,465
Current portion of long-term debt	570,202	638,890
Accounts payable	13,529,719	12,088,004
Other current and accrued expenses	5,281,139	4,752,657
Advance payments from customers	105,395	1,470,306
United States and foreign taxes on income (Note 2)	3,831,734	3,143,955
Antitrust settlements due within one year	138,923	80,448
	37,457,758	32,374,725
WORKING CAPITAL	$39,379,914	$36,304,578
PROPERTIES, INVESTMENTS AND OTHER ASSETS:		
Property, plant and equipment, at cost, less accumulated depreciation (Note 3)	19,962,232	19,336,364
Investment and advances — foreign fifty percent owned affiliate, at equity in underlying net assets	470,117	451,580
Other assets and deferred charges	2,333,483	3,039,228
SUB TOTAL	62,145,746	59,131,750
LESS — NONCURRENT LIABILITIES:		
Long-term debt (Note 5)	11,986,711	12,583,549
Equity of minority shareholders in subsidiary companies	8,581,781	8,848,019
Accumulated income tax reductions	398,839	274,809
Accrual for antitrust settlements, due after one year	784,686	330,192
Deferred income	476,461	555,808
Other long-term liabilities	651,056	581,420
	22,879,534	23,173,797
NET ASSETS	$39,266,212	$35,957,953
SHAREHOLDERS' INVESTMENT: (Notes 5 and 6)		
6% Prior cumulative preferred stock — $100 par value: Authorized and issued — 9,650 shares (1965 — 10,850 shares)	$ 965,000	$ 1,085,000
5½% Convertible second preferred stock — $23 par value: Authorized — 500,000 shares; Issued — 485,614 shares	11,169,122	11,169,122
Common stock — $1.00 par value: Authorized — 4,000,000 shares; Issued — 2,575,197 shares (1965 — 2,574,826 shares)	2,575,197	2,574,826
Common stock, Class B — $1.00 par value: Authorized and issued — 44,900 shares (1965 — 45,190 shares)	44,900	45,190
Capital in excess of par value (Note 6)	16,467,185	16,467,255
Reinvested earnings	8,143,340	4,715,092
	39,364,744	36,056,485
Less — Treasury stock — 13,800 common shares, at cost	98,532	98,532
	$39,266,212	$35,957,953

CONSOLIDATED STATEMENT OF EARNINGS AND REINVESTED EARNINGS

	JUNE 30, 1966	1965
INCOME:		
Net sales	$138,327,651	$117,599,899
Other income	531,508	540,686
	138,859,159	118,140,585
COSTS AND EXPENSES:		
Cost of products sold	104,972,856	88,597,881
Selling and administrative	18,683,230	18,071,250
Depreciation	2,730,149	2,635,385
Interest	1,580,876	1,123,381
Other	623,932	426,401
	128,591,043	110,854,298
Income from operations before income taxes and minority interest	10,268,116	7,286,287
Provision for income taxes [including deferred taxes of $124,000 (1965 — $74,000)] (Note 2)	(4,746,000)	(2,940,423)
Minority interests share of subsidiaries' income	(896,264)	(892,448)
NET EARNINGS	4,625,852	3,453,416
REINVESTED EARNINGS — BEGINNING OF YEAR	4,715,092	3,818,575
	9,340,944	7,271,991
LESS:		
Cash dividends on preferred stock	677,604	684,805
Provision for antitrust settlements net of taxes of $480,000 (1965 — $266,238)	520,000	283,762
Charge resulting from consolidation of foreign subsidiaries and recognition of change in equity of foreign fifty percent owned affiliate	—	1,588,332
	1,197,604	2,556,899
REINVESTED EARNINGS — END OF YEAR	$ 8,143,340	$ 4,715,092

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — Principles of consolidation:

The consolidated financial statements include the accounts of the company and its majority-owned subsidiaries and reflect the company's equity in net profits or losses of a foreign fifty percent owned company. The net assets of consolidated foreign subsidiaries are included at rates of exchange prevailing at the end of the year, except that property, plant and equipment are included at appropriate rates of exchange at dates of acquisition. Results of operations (except depreciation) are converted at appropriate rates of exchange in effect during the year. The results of operations and the net assets of the overseas foreign subsidiaries consolidated are not material in relation to the consolidated financial statements.

NOTE 2 — Federal Income Taxes:

Federal income tax returns of the Company have been examined by the Internal Revenue Service and settled through the fiscal year ended June 30, 1962.

Federal income tax returns of Fifty Avenue L, Inc., a former subsidiary which was merged with the Company on March 31, 1963, have been examined through the fiscal year ended March 31, 1962. As a result of such examinations, the Internal Revenue Service has proposed a tax deficiency for the fiscal year ended March 31, 1960 of approximately $1,070,000, exclusive of interest. During the current year, the company received a "90-day letter" from the Internal Revenue Service in connection with this deficiency, which is proposed principally on the ground that the carryover of net operating losses incurred by Fifty Avenue L, Inc. prior to its affiliation with the Company should not be allowed. Management believes that the claims asserted by the Service are unwarranted. In December 1965 a petition was filed in the Tax Court of the United States for a redetermination of the deficiency as set forth by the Service. The final disposition of this matter cannot be determined at this time and therefore no provision has been reflected in the accompanying financial statements.

Federal income tax returns of Cornell-Dubilier Electric Corporation, a subsidiary, have been examined and settled through the fiscal year ended September 30, 1955. In connection with Internal Revenue Service examinations of Cornell's tax returns for the fiscal years 1956 through 1962, a tentative settlement has been reached with the Appellate Division of the Service. On the basis of such settlement, a deficiency of approximately $119,000, exclusive of interest, would be assessed, and provision for such amount has been included in the accompanying statement of financial position. Because Cornell received tax refunds in excess of $100,000 in certain of these years, the settlement is subject to review by the Joint Committee on Internal Revenue Taxation.

The investment tax credit allowed under the Internal Revenue Code has been applied as a reduction of the provision for Federal income taxes; this reduction amounted to $100,200 in 1966 and $117,500 in 1965.

NOTE 3 — Property, plant and equipment:

Property, plant and equipment is stated at cost and consists of the following:

	June 30 1966	June 30 1965
Land	$ 614,696	$ 588,849
Buildings and improvements	12,614,969	11,835,299
Machinery and equipment	25,565,476	23,733,122
Cost over net book value of subsidiaries' fixed assets acquired — based on appraisal	2,343,478	2,343,478
	$41,138,619	$38,500,748
Less accumulated depreciation	21,176,387	19,164,384
	$19,962,232	$19,336,364

NOTE 4 — Pension plan:

The Company and its subsidiaries have contributory retirement plans for salaried employees. The cost of the plans for 1966 amounted to $278,365. Based on actuarial estimates, the unfunded cost of past service benefits at June 30, 1966 was approximately $458,000 which is expected to be amortized during the succeeding eleven years.

NOTE 5 — Long-Term Debt:

Long-term debt includes the following:

	Annual Payments	June 30, 1966
Company:		
5¼% Notes (due August 1, 1980)	—	$ 4,700,000
6% Notes (due October 1, 1966)	$185,000	185,000
6% Notes (due June 1, 1975)	—	1,182,000
6% Notes (due March 1, 1976)	—	3,710,000
5¾% Mortgage Loan (due April 1, 1980)	16,196	332,243
Sub Total	$201,196	$10,109,243
Subsidiaries:		
3⅞% Sinking Fund Debentures (due March 1, 1972)	250,000	1,600,000
6½% Mortgage Loans (due November 1966)	19,251	19,251
6¾% Mortgage Loans (due August 1989)	6,197	334,644
5% Mortgage Loans (due July 1970)	48,695	239,116
6¼% Mortgage Loans (due April 1971)	44,863	254,659
	$570,202	$12,556,913
Current portion for prepayments and Sinking fund		570,202
		$11,986,711

Aggregate maturities of total long-term debt of the Company and consolidated subsidiaries, for each of the five years subsequent to June 30, 1966 are $570,202 in 1967, $372,614 in 1968, $379,667 in 1969, $1,121,131 in 1970 and $1,149,073 in 1971.

The most restrictive of the Note Agreements, the 5¼% Note Agreement due August 1, 1980, provides among other things, for (a) consolidated working capital of not less than $27,500,000, (b) restrictions upon the amount available for dividends other than those payable in stock of the Company (the amount available for such purposes at June 30, 1966 was $5,859,433).

NOTE 6 — Capital stock and dividend limitation:

6% Prior Cumulative Preferred Stock:

The Company is required to make annual sinking fund payments of $120,000 through March 1, 1973 and the balance of $125,000 on March 1, 1974 to be applied to the redemption of the Prior Preferred Stock each year at $100 per share. In addition, the Company may redeem any of the remaining outstanding Prior Preferred Stock at $102 per share to March 1, 1971 and $100 per share thereafter.

Subscription warrants to purchase 76,577 shares of Common Stock (adjusted for Common Stock dividends) are attached to the Prior Preferred Stock at the rate of $17.042 per share before March 1, 1967. This rate increases annually to $20.176 on March 1, 1971 when the warrants are terminated.

5½% Convertible Second Preferred Stock:

Each share of the Second Preferred Stock is convertible into .877 shares of Common Stock. The conversion rate is subject to adjustment to protect the conversion privilege against dilution in certain events. The Convertible Preferred Stock is redeemable commencing April 1, 1962 at $24.265 per share. Thereafter, the redemption price is reduced annually until 1969 when the price becomes $23 per share and remains unchanged. The Convertible Preferred Stock is junior to the Prior Preferred Stock both as to dividends and liquidation rights. In addition, the Company may not redeem in cash an aggregate amount of more than $1,000,000 of Convertible Preferred Stock as long as the Prior Preferred Stock remains outstanding.

Common Stock, Class B:

The Common Stock, Class B is convertible into Common Stock at the rate of 1.2763 shares of Common Stock (adjusted for stock dividends) for each share of Class B. Shareholders of Common Stock, Class B are not entitled to dividends until Common Stock shareholders have received dividends aggregating $5.00 per share in any calendar year. Dividends paid in excess of $5.00 per share of Common Stock are to be shared equally on a per share basis with the Common Stock shareholders. As in prior years, the additional par value of Common Stock over the Common Stock, Class B has been charged to Capital In Excess of Par Value for shares converted during the year.

Common Stock:

At June 30, 1966, there were 565,874 shares of Common Stock reserved for the following: (a) 431,991 shares for the conversion of the 5½% Convertible Second Preferred Stock, (b) 57,306 shares for the conversion of Common Stock, Class B and (c) 76,577 shares for exercise of warrants issued with the 6% Prior Cumulative Preferred Stock.

NOTE 7 — Lease Commitments:

The Company and its consolidated subsidiaries are obligated under numerous real property leases expiring from one to twenty-five years. The aggregate annual rentals payable for each of the fiscal years subsequent to the year ended June 30, 1966 are as follows:

1967 through 1971	$1,110,000
1972 through 1976	967,000
1977 through 1981	876,000
1982 through 1986	692,000
1987 through 1991	346,000

FEDERAL PACIFIC ELECTRIC COMPANY AND CONSOLIDATED SUBSIDIARIES

OPINION OF INDEPENDENT ACCOUNTANTS

To The Shareholders of Federal
Pacific Electric Company:

We have examined the consolidated statement of financial position of Federal Pacific Electric Company and its subsidiaries as of June 30, 1966, the related statement of consolidated earnings and reinvested earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the possible effect of the final determination of proposed additional federal income tax assessments for prior years mentioned in Note 2, the accompanying consolidated financial statements examined by us present fairly the financial position of Federal Pacific Electric Company and its subsidiaries at June 30, 1966, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The consolidated financial statements of Federal Pacific Electric Company for the year ended June 30, 1965 were examined by other independent accountants.

Price Waterhouse & Co.

Newark, New Jersey
September 19, 1966

DIRECTORS

LOUIS W. COLE, Chairman
THOMAS M. COLE
BENJAMIN W. BALL
HAIM BEYER
LEOPOLDO A. FERRÉ
ROBERT C. GRAVES
CLIFFORD E. HARRIS
HARRY E. KNUDSON, JR.
CHARLES KURZ
JACOB B. MELNICK
RICHARD NOONAN*
JOHN T. ROMANO
R. MILES WARNER

**Chairman, Operations Committee*

OFFICERS

LOUIS W. COLE, Chairman
JOSEPH S. THOMPSON, Honorary President
THOMAS M. COLE, President and Chairman of the Executive Committee
ROBERT C. GRAVES, Vice President
CLIFFORD E. HARRIS, Vice President
HARRY E. KNUDSON, JR., Vice President Sales
JOHN T. ROMANO, Vice President
LEONARD P. SHELLEY, Vice President
BERNARD G. TREMBLAY, Vice President
ARMOND J. BISIGNANI, Commercial Vice President
BURT S. BURKE, Commercial Vice President
EDWARD BIERMA, Secretary-Treasurer
HAROLD E. YOUNG, Controller and Assistant Treasurer
KENNETH A. LEACH, Assistant Controller
LESTER DESCHENES, Divisional Controller
EUGENE B. FERN, Assistant Secretary
EMIL M. JERINA, Assistant Secretary
CHARLES KURZ, Assistant Secretary
JEFFERSON VORZIMER, Assistant Secretary

GENERAL OFFICES

50 Paris Street, Newark, New Jersey 07101

TRANSFER AGENTS

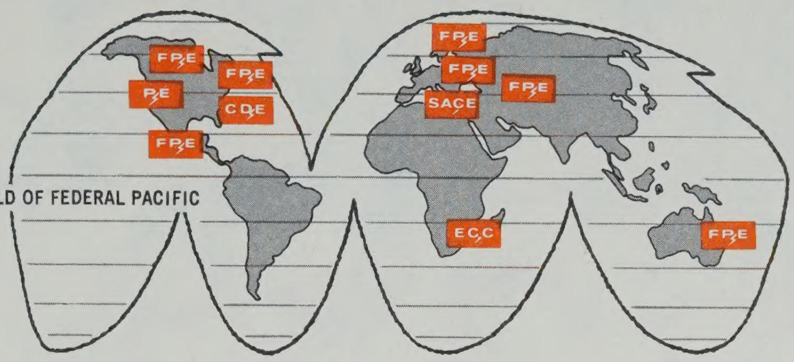
for Common Stock of Company
MORGAN GUARANTY TRUST COMPANY OF NEW YORK, New York, New York 10015

for 5½% Convertible Second Preferred Stock of Company
MORGAN GUARANTY TRUST COMPANY OF NEW YORK, New York, New York 10015

REGISTRARS

for Common Stock of Company
THE CHASE MANHATTAN BANK, New York, New York 10015

for 5½% Convertible Second Preferred Stock of Company
CHEMICAL BANK NEW YORK TRUST COMPANY, New York, New York 10015



A WORLD WIDE MANUFACTURING AND SALES ORGANIZATION

FEDERAL PACIFIC ELECTRIC COMPANY—USA: Newark, New Jersey,

PLANTS AT: Newark, New Jersey; Norwood, Massachusetts; Long Island City, New York; Philadelphia and Irwin, Pennsylvania; Albemarle, North Carolina; Edgefield, South Carolina; Chamblee and Vidalia, Georgia; St. Petersburg, Florida; Silver Springs, Maryland; Cleveland, Ohio; Des Plaines, Illinois; St. Louis, Missouri; Dallas, Texas; Seattle, Washington; Burlingame, Santa Clara and Los Angeles, California; Honolulu, Hawaii

CORNELL-DUBILIER ELECTRONICS: Newark, New Jersey,

PLANTS AT: Norwood and New Bedford, Massachusetts; Providence, Rhode Island; Sanford and Fuquay-Varina, North Carolina; Venice, California

FPE-PIONEER ELECTRIC LIMITED, Winnipeg, Manitoba, Canada

PIONEER ELECTRIC

PLANTS AT: Toronto, Ontario; Granby, Quebec; Brandon and Winnipeg, Manitoba; Regina, Saskatchewan and Red Deer, Alberta

FEDERAL PACIFIC ELECTRIC OF CANADA, Toronto, Ontario

PLANTS AT: Vancouver, British Columbia; Toronto, Ontario; Granby, Quebec

FPE SCHALTGERATE GmbH, Karlsruhe-Durlach, Germany

SACE Bergamo, Italy

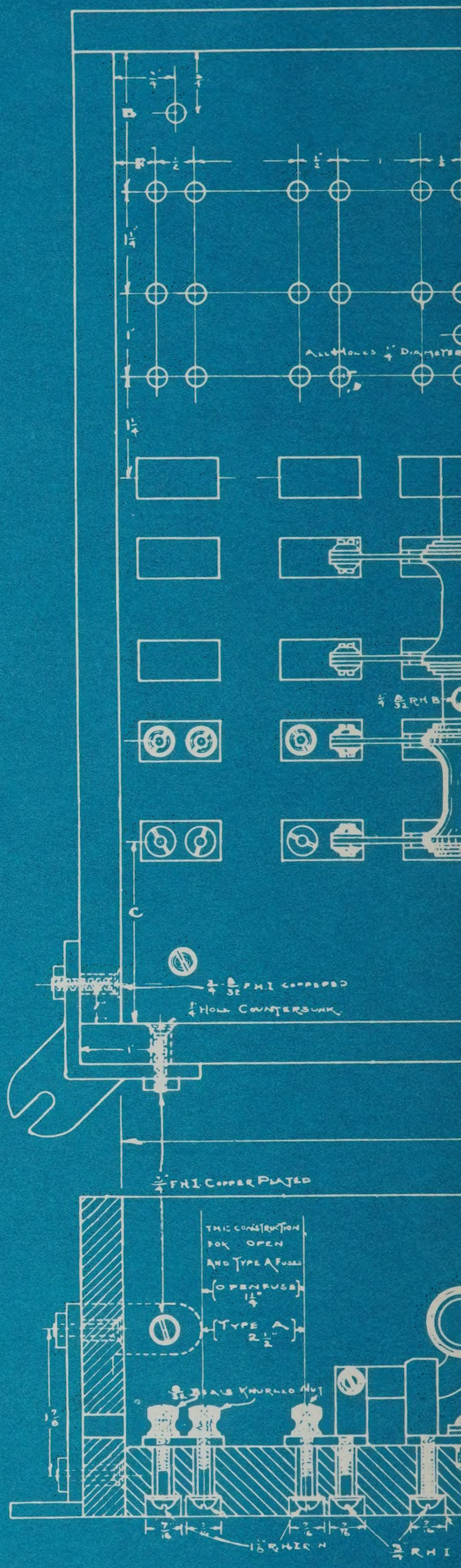
FEDERAL PACIFIC ELECTRIC Ges. m.b.H., St. Martin-im-Innkreis, Austria

ECC (MOULDED BREAKERS) LTD., Wolverhampton, England; Johannesburg, South Africa

FPE AUSTRALIA PTY. LTD., Sydney, Australia

FEDERAL PACIFIC ELECTRIC OVERSEAS, S.A., Zug, Switzerland

FEDERAL PACIFIC ELECTRIC de MEXICO, S.A. de C.V., Mexico City, Mexico



¼ HOLE COUNTERSUNK
¼ F.H.I. COPPER PLATED
THIS CONSTRUCTION FOR OPEN AND TYPE A FUSES
OPEN FUSE 1¼"
TYPE A 2½"
KNURLED NUT